

CITY OF FORT SASKATCHEWAN

Committee of the Whole - Information Report

Prioritization Models for Capital Projects

Purpose:

The purpose of this report is to inform Committee of the Whole members of two alternative models for prioritizing capital projects within the City's 10-Year Capital Plan, to facilitate discussion, and to request feedback from members.

Background:

On October 1, 2019, during the 2020 Capital Budget deliberations, Council passed resolution R177-19 directing Administration "to prepare and present a report to Council detailing the considerations that could be used in setting a priority for capital spending, and that Administration prepare the 10-Year Capital Plan that ranks and sorts all line items according to a level of priority with the priority of 1 for high priority, 2 for mid-priority, and 3 for low priority, and further that the Capital Plan be presented to Council no later than February 28, 2020."

Capital project prioritization models are evaluation tools to effectively measure the need, impact, and financial viability of each capital project under consideration. The results of these evaluations assist Council and Administration in making capital investment and resource allocation decisions. The models typically assign priority rankings to capital projects through a process of scoring each capital project in relation to one another based on an established set of criteria. Capital projects which score higher in relation to others are considered to be higher in priority, and those which score lower are considered to be lower in priority.

Summary Analysis:

Capital Projects Prioritization Matrix

Appendix 1 – Capital Projects Prioritization Matrix provides an example of a model that could be used to prioritize and rank the capital projects within the 10-Year Capital Plan. As part of our research, we discovered that this model is used by several municipalities such as Calgary and Winnipeg for assigning priorities to their capital projects in order to help them make capital investment decisions. The model is similar to one developed and used by the City in 2003; however, it has been updated and adapted for potential use by the City currently. It reflects input from staff members who are directly responsible for capital projects and are key to planning the City's long-term capital requirements.

The model prioritizes capital projects through a process of assigning individual scores to projects based on an established set of weighted criteria. Scores are determined by assigning values under each criteria, multiplying these values by their relative weightings, and then summing the results. The final scores range in value from 5 to 100 with 100 being highest priority and 5 being lowest priority. Rankings could be further simplified by assigning projects scoring 5 to 39 as lowest priority (3); 40 to 69 as mid-priority (2); and 70 to 100 as highest priority (1), for example.

The most critical step in using this type of prioritization tool is in selecting appropriate criteria. Each criteria and their relative weightings must reflect attributes that the City deems critical to determining whether or not a capital project should be initiated. At its core, the model must be able to rank capital projects according to their ability to meet the City's strategic objectives and to maintain service levels. The example model in Appendix 1 scores each capital project based on 8 weighted criteria as follows:

1. *Project Category* – projects are assigned to 5 categories from highest to lowest priority: Mandatory, Critical, Efficiency/Cost Savings, Lifecycle, and Improvement;
2. *Strategic Alignment* – projects are scored as to how closely they align to strategic goals within the Strategic Plan and/or Master Plan(s);
3. *Risk Assessment* – projects are scored to the extent they address/mitigate risk to public and/or occupational health and safety;
4. *Service Levels* – projects are scored based on their service level impacts;
5. *Operating Budget Impact* – projects are scored based on their incremental changes to operating costs;
6. *Financing* – projects are scored based on their planned sources and types of financing (internal versus external);
7. *Economic Impact* – projects are scored based on their impact to the local economy and businesses; and
8. *Community Impact* – projects are scored based on their impact to community residents.

Based on the model's criteria and their relative weightings, capital projects that score higher in relation to others are ones that are mandatory, directly align with strategic goals, lower health and safety risks, address service level deficiencies, reduce operating costs, utilize external financing, and positively impact the local economy and/or community.

Priority Based Budgeting Capital Projects Scoring

Appendix 2 – Priority Based Budgeting (PBB) Capital Projects Scoring provides another option of a model/tool that could be used to prioritize and rank capital projects within the 10-Year Capital Plan. Planning is currently underway for scoring programs that were identified during the program costing phase of priority based budgeting. The process involves scoring each program against established results/priorities, and basic program attributes. This work could be extended to the City's capital projects thereby utilizing existing PBB resources including training and software.

The first step in scoring capital projects under the PBB model is to analyze the relative influence each capital project has on achieving the City's desired results. Results are drawn from the City's strategic documents (Strategic Plan, Municipal Development Plan, Community Sustainability Plan, community surveys) and are intended to define what the City government is in business to achieve. The six preliminary community results areas for the City identified by Priority Based Budgeting through strategic document review are well planned and maintained infrastructure;

responsive economy; safe community; recreation, culture and parks; welcoming community; and well planned community. Further detail is added to results through definitions and sub-result detail. Appendix 3 provides an example of the completed community results for Lee's Summit, USA, which includes definitions and sub-results. Each capital project would be scored against individual community results using a 0 to 4 scale as shown in the table below.

Degree of Influence Over Results:	Score:
Project has an essential or critical role in achieving the result	4
Project has a strong influence on achieving the result	3
Project has some degree of influence on achieving the result	2
Project as minimal influence on achieving the result	1
Project has no influence on achieving the result	0

The next step would be to score each capital project against five basic attributes. Attributes are additional characteristics that could affect capital projects overall relevance and impact their level of prioritization and include: (1) Mandate, (2) Portion of Community Served, (3) Cost Recovery, (4) Change in Demand, and (5) Reliance on the City to Provide.

Scoring against results and attributes will identify a capital project's alignment to the City's desired results areas/purpose; and will identify those projects that most positively impact these areas, and those which do not contribute as directly. Scoring is done both by departments and separately by a peer review system. Peer reviews are performed by teams independent to those that performed the initial scoring. Separate teams are assigned to each result and each attribute and are responsible for validating the scores of all capital projects against that one result or one attribute. The peer review process helps to reduce bias and adds credibility to the assigned scores. It is also important to note that scoring within PBB is more than just numbers; it provides additional levels of data about each capital project that could be useful for decision-makers.

PBB software assigns a final score to each capital project by multiplying the assigned scores for each result and attribute by their relative weightings, and then comparing the total score to the maximum score (see Appendix 4). Capital projects are then grouped into one of four quartiles based on their final scores using boundary values and standard deviation. Capital projects that are more aligned with strategic goals, results and attributes are assigned to Quartiles 1 and 2 (Q1/Q2); and those that are less aligned are assigned to Quartiles 3 and 4 (Q3/Q4). The quartiles represent a declining scale with Q1 capital projects most closely aligning with priorities and Q4 projects aligning the least. Additional tools are available within the software utilizing the scoring data to help support data driven decisions.

Existing PBB resources, software and support are available to manage the process of scoring and prioritizing capital projects within the 10-Year Capital Plan. City programs that were identified during Phase 1 of priority based budgeting are scheduled for scoring and peer review in late March/April, and will follow a similar process to the one described above. Therefore, extending this work to include the scoring of capital projects within the 10-Year Capital Plan would coincide well.

Council will see further detail and information on PBB results and attributes at their strategic planning session on March 5, 2020.

Plans/Standards/Legislation:

Capital project prioritization models support goals within the Strategic Plan as follows:

- *Excellence in Government* – Continuous improvement; constantly looking for ways to improve our services through planning, innovation, collaboration and consultation.
- *Well Planned and Maintained Municipal Infrastructure* – Strategically manage, invest, and plan for sustainable municipal infrastructure.

Next Steps:

Administration will consider feedback received from Committee of the Whole members to assist in determining which model/tool, or a combination thereof, to use to prioritize capital projects within the 10-Year Capital Plan.

At Council’s strategic planning session on March 5, 2020, further information on PBB results and attributes will be presented for discussion.

At the March 17, 2020 Committee of the Whole meeting, an update on the 2021 Budget process will be provided including use of PBB data and tools to inform the budget.

At the June 16, 2020 Committee of the Whole meeting, the 10–Year Capital Plan will be presented to members with all capital projects prioritized and ranked in accordance with the final model/tool.

Attachments:

- Appendix 1 – Capital Projects Prioritization Matrix
- Appendix 2 – PBB Capital Projects Scoring DRAFT Community Results and Attributes
- Appendix 3 – Community Results (Example) – Lee’s Summit, USA
- Appendix 4 – PBB Final Score Calculation (Example)

File No.:

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